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\_\_\_\_\_ Wednesday November 24, 1976 \_\_\_\_\_ CI NIDC 76-275C \_\_\_\_\_

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State Dept. review  
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National Intelligence Daily Cable for Wednesday November 24, 1976.

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[REDACTED] The NID Cable is for the purpose of informing senior US officials.

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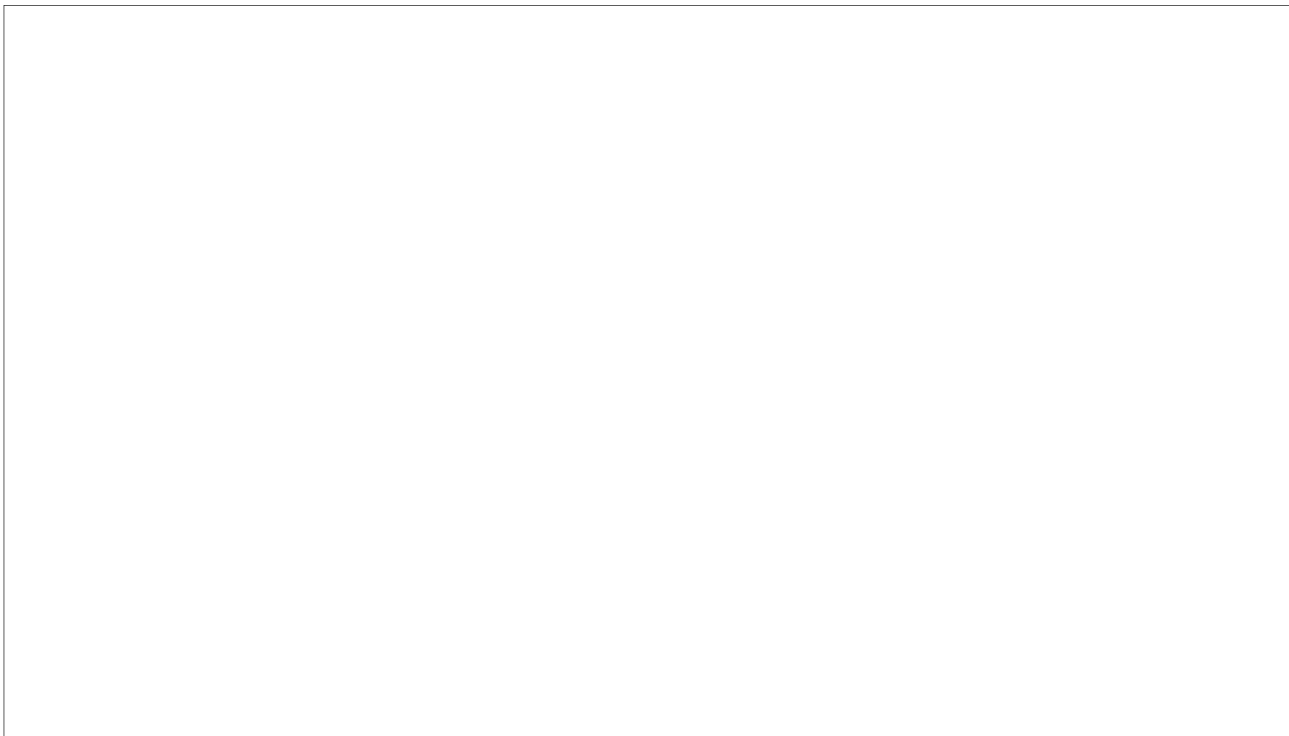
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## IRAN: Balance of Payments

[ ] Iran's current-account surplus, which probably will total \$5.6 billion this year, does not support the Shah's argument for a large oil price hike.

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[ ] Even with no oil price increase next year, Iran probably would run a \$4.2-billion current-account surplus. A 10-percent oil price hike would raise the 1977 surplus to \$6.6 billion.

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[ ] Iran experienced a financial setback last year when imports almost doubled and exports declined in response to the slump in world demand for heavy crude oil. Imports of capital goods, industrial raw materials, and transport equipment rose dramatically as Iran rushed ahead with its ambitious development program. The current-account surplus in 1975 dipped to \$3.6 billion from \$13.2 billion in 1974.

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[ ] Oil exports began to rebound early this year and crude oil liftings were close to capacity. As a result, we expect total exports to rise by \$3.2 billion this year.

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[ ] Imports, on the other hand, will remain at about the 1975 level. In the first nine months of this year, imports from the US, Iran's largest supplier, were down 17 percent from last year's level.

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[ ] The economy has not yet digested last year's rapid increase in imports. Port expansion and modernization projects have made little headway; the volume of cargo clogging Iran's major ports has reportedly doubled since the end of 1975. Food and military equipment imports have been given priority; consumer durables, construction materials, and capital goods deliveries are caught up in the backlog.

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[ ] Slow progress in clearing and expanding the ports, and the government's decision in June 1975 to stretch out considerably the development plan should hold down import gains for the next few years.

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[ ] The increase in this year's trade surplus has been partly offset by a rise in net service payments. Much of the rise in the services deficit reflects larger expenditures for foreign managerial services to carry out development projects.

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[ ] On the capital account, Iran may register a deficit of as much as \$2.9 billion this year, partly reflecting capital flight. In late October, the Shah admitted that an outflow of \$2 billion of private funds had occurred over the preceding 16 months, largely in reaction to the strict limitations on profit margins enacted in mid-1975. The Shah will still be able to maintain outlays both for foreign assistance and for official investment and at the same time increase foreign exchange reserve holdings substantially. [ ]

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#### MEXICO: Economic Problems

[ ] Mexico is in the throes of a crisis in business and public confidence in its economic future.

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[ ] The peso fell on Monday to 3.57 cents on the New York exchange after closing last Friday at 4.11. Overall, the peso has depreciated by 55 percent since it was first floated in September. In an effort to stem the massive capital flight of recent days, the government on Monday temporarily suspended the sale and purchase of all foreign currencies and gold by banks.

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[ ] An estimated \$300 million was withdrawn from Mexico City banks last week; over half of that amount left last Friday. During early October, capital flight reportedly occurred at the rate of \$100 million a week.

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[ ] Rumors of a coup or a move by President Echeverria last weekend to extend his term of office have not helped to improve the situation. Although the weekend passed quietly, distrust of Echeverria's intentions remains widespread. The suspicions of Echeverria are influenced by his activism in the waning weeks of his administration, a time when Mexican presidents customarily begin transferring power to their successor.

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[ ] The major task for president-elect Lopez Portillo, who assumes office next Wednesday, is to deal with the economy. The very act of taking office will help restore confidence.

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#### USSR: New Trade Union Chairman

[ ] The Soviets, after 18 months, have finally appointed a chairman of the All-Union Central Council of Trade Unions. A.I. Shibayev, whose appointment was announced yesterday, has been party first secretary of the Saratov region on the Volga since 1959.

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[ ] The leadership has obviously had difficulty choosing a successor to A.N. Shelepin, who was ousted as head of the trade unions in May 1975. The need for a decision recently has become more urgent because the Soviets have scheduled a trade union congress for next March.

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[ ] In choosing Shibayev, the leaders avoided picking either one of themselves or a trade union professional. Present leaders probably viewed the job as unpromising. The post has not usually been filled by a trade union specialist.

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[ ] Shibayev, 61, was a design engineer and factory director before entering party work. He has done little to attract national attention.

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[ ] Party secretaries Kirilenko and Kapitonov attended the trade union plenum that elected Shibayev. Previous trade union chiefs have often been members or candidate members of the Politburo, and Shibayev stands a chance for such a promotion eventually. Given his modest background, however, the leadership will probably not move quickly to include him in its ranks. [ ]

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#### USSR: Meat Imports

[ ] The timing of the USSR's recent purchase of 42,000 tons of meat from Argentina, Australia, and New Zealand is somewhat puzzling because the worst of the Soviet meat shortages is apparently over. These purchases bring total meat commitments for 1976 to nearly 200,000 tons, and talks are under way with Australia, New Zealand, and the EC that might provide an additional 150,000 tons. If these contracts are concluded, Moscow's hard currency outlays for foreign meat may reach \$250 million this year.

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[ ] We had expected large Soviet purchases of meat earlier this year to offset sharply reduced domestic meat production, a consequence of last year's harvest failure. Instead, purchases were minimal at the time when domestic meat shortages were at their worst. The leadership seemed to have weathered a potentially difficult period with little evidence of public discontent.

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[redacted] The current interest in meat purchases may result from:

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--A larger-than-expected reduction in meat inventories.

--An improved hard currency outlook. This year's abundant harvest has reduced pressure to use hard currency for grain imports in 1977.

--A recognition that even the reduced plan for domestic meat production--13.3 million tons this year--cannot be met. Industrial meat output in October was the lowest for that month since 1970, and at the end of the month was running 21 percent behind last year's level.

[redacted]

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[redacted] Diets in general this winter will nevertheless be more varied than last winter. Supplies of dairy products, potatoes, winter vegetables, sugar, and bread reportedly are adequate at government-controlled prices in most major cities; rural areas are still experiencing shortages of butter, eggs, and flour. [redacted]

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#### WEST GERMANY: Economic Program

[redacted] The West German Council of Economic Experts stated yesterday that a \$3-billion program is needed to accelerate economic growth next year. In a summary of its annual report, the semi-independent government advisory board argued that without such a program, West German gross national product will grow only 4.5 percent, keeping unemployment unacceptably high.

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[redacted] The Council recommended boosting private investment to generate a 5.5-percent growth. Details of the proposed measures will not be available until the full report is released.

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[redacted]

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[ ] The West German government is unlikely to take any immediate action based on the Council's recommendation. The Economics Ministry just announced that the economy was improving because of a strong surge of foreign orders. The Finance Ministry, moreover, is heavily committed to reducing the \$12-billion federal deficit by some \$2 billion next year and will resist any new demands on the public purse.

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[ ] The projections of the highly regarded Council are more pessimistic than those contained in the joint forecast of the major West German economics institutes issued last month. The institutes, which have projected a 5.5-percent real growth rate, cautioned against any new stimulation programs, a view which Bonn seconded.

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[ ] The Organization for Economic Cooperation and Development and other groups outside of West Germany, however, have called for stimulation. Many are concerned that Bonn is banking too heavily on stimulus from the foreign sector at a time when the industrialized countries are showing less than buoyant growth. By taking a wait and see approach, which seems the most likely course, West Germany may hold back too long, exacerbating the slowdown in Europe. [ ]

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#### FRANCE: By-election Results

[ ] The results of the seven French legislative by-elections held this month point up the continuing growth of the Socialist Party and the debilitating effect of bickering within the governing majority.

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[ ] Politicians and the press are straining to detect trends that will apply in the crucial 1978 legislative election but only slightly more than 1 percent of the country's registered voters were affected, and many of these chose not to vote.

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[ ] Campaigning centered on local issues, especially on the candidates' ability to pry benefits for their districts out of the central government. The incumbents, all former cabinet-level officials in President Giscard's government, did not emphasize national party platforms and issues.

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[ ] The Socialists won two new seats at the expense of Giscard's Independent Republicans. Two Gaullists, including former prime minister Chirac, were re-elected, as were a centrist, a technocrat who campaigned as a member of the "presidential majority," and one Independent Republican.

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[ ] The Socialist gains came at the expense of their Communist allies and of the center-right. The Communists gained votes in some areas, but the junior partners in the leftist alliance, the left Radicals, failed again to make the kind of showing that they need to attain more influence. The voting also showed that Socialist voters are still reluctant to support a Communist who represents the alliance in the second round.

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[ ] The same dissatisfaction with alliance partners showed up among supporters of the majority. Some Gaullist voters were unwilling to vote for Independent Republicans and centrists, while some center voters refused to continue to support center candidates who had moved from the opposition to the government side since the last election in 1973.

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[ ] The Gaullists are buoyed by their two first-round victories, but most realize the party has a long way to go before it has a chance to prevent the loss, predicted by nearly all observers, of a significant number of its 170-odd Assembly seats.

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[ ] The Independent Republicans' weakness results not only from their failure to develop a stronger organization and a consistent image, but also from Giscard's declining popularity. This has strengthened the independence of the centrists, who had once considered merging with the President's party.

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#### TURKEY-USSR: Kosygin Visit

[ ] Soviet and Turkish officials are discussing the possibility of Premier Kosygin's attendance at a ground-breaking ceremony for a joint dam project on the border between the two countries.

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[redacted] //Both sides seem to attach considerable importance to the visit, but for different reasons. The Soviet initiative seems to be another effort by the USSR to persuade Turkey to come to terms on the "political document" the two countries agreed to sign last December.//

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[redacted] //Turkish Prime Minister Demirel is said to see the meeting with Kosygin as an opportunity to explore the possibility of additional Soviet economic aid for Turkey, which already ranks high among the recipients of Soviet assistance.//

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[redacted] Demirel doubtless realizes, however, that the "political document" would be near the top of Kosygin's agenda. He probably would continue to obstruct Soviet plans to move ahead quickly. The Prime Minister probably would keep the issue alive, however, since he recognizes its value as a mean of promoting favorable action by the US Congress on the US-Turkish defense cooperation agreement.

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#### NATO: MBFR Compromise

[redacted] //Belgium and the UK have agreed to a US - West German proposal for a demarche aimed at ending the stalemate in the Vienna force reduction talks caused by France's refusal to allow its forces to be included in Western figures.//

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[redacted] //France's response to the demarche will provide an indication of its willingness to reach an eventual compromise with the allies on the inclusion of its forces under the common ceiling. The French have objected that the inclusion of their forces in the Western force ceiling infringes on their freedom of action. While the French maintain that they are not opposed to a compromise, they have been unwilling to assist in reaching a mutually acceptable agreement.//

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[redacted] //The allies plan a concerted approach to the French. The Belgians will shortly take up the matter with the French ambassador to NATO while another, as yet undetermined, ally will approach the French government.//

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[redacted] //Under the proposed compromise, the Western updated figures would not include French forces. At the same time, consideration by the allies of the more basic issue of the status of French forces, under a collective Western commitment to reduce allied forces in Central Europe, would be deferred.//

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[redacted] //The presentation of the Western figures would open the way for discussions with the East aimed at getting Eastern acknowledgment of a substantial disparity in manpower in the reduction area. The East, which introduced the data last June for the first time, has been demanding that the Western data be presented as a precondition for engaging in a detailed discussion of data.//

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[redacted] //If France accepts the compromise, the allies would be able to challenge the East's contention--supported by the new data--that parity between Eastern and Western ground forces already exists. The smaller allies have generally been unhappy that the West has been unable to respond to this claim. The allies hope they can buttress their argument for asymmetrical reductions by establishing that the Warsaw Pact's figures exclude certain categories. [redacted]

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#### EC: EC Response to CEMA Initiative

[redacted] //The EC last week delivered a cautious response to the offer from CEMA to conclude an "umbrella" trade and cooperation agreement linking the two organizations.//

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[redacted] //The EC foreign ministers, meeting in Brussels, approved a draft accord that ignored most of the provisions contained in the draft agreement proposed by CEMA last February. They did agree, however, to begin negotiations on possible cooperation in those areas--transportation, standardization, the environment, and the exchange of technical information--which the Community believes fall within CEMA's competence.//

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[redacted] //The EC stood firm on its position that trade agreements with individual CEMA members should be negotiated by the EC Commission. In a separate letter, the Community reiterated its offer of two years ago to enter into such negotiations in accordance with its common commercial policy. The EC has steadfastly refused to recognize a CEMA role in trade talks, noting that CEMA--unlike the EC--lacks the authority to conclude trade agreements on behalf of its members.//

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[redacted] //Several of the articles in the CEMA draft, such as those granting most-favored-nation status, improving credit terms, and eliminating trade quotas and non-tariff barriers, were ignored because the EC believes the communist states could not reciprocate adequately. The EC informed CEMA, however, that the Community's reply is intended as a starting point "capable of evolving in the light of the negotiations"--which it said it hopes can begin soon.//

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[redacted] //EC officials doubt that CEMA will respond soon, and in any event anticipate protracted and difficult negotiations.//

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[redacted] //The EC, in such negotiations, will strive to avoid any agreement that would:

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--Strengthen Soviet control over East European trade relations with the EC countries by extending CEMA's authority.

--Weaken EC institutions by blurring the jurisdictional distinction between Community and individual members in such matters as commercial policy.

--Advance Soviet efforts to set up permanent pan-European bodies to implement East-West agreements--an idea the EC has rejected in other forums. [redacted]

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